



Building savings ⁱⁿ 2021

AČSS 

ASOCIACE ČESKÝCH STAVEBNÍCH SPORITELŮ

Dear friends of building savings,

I am addressing you as a new Chairperson of the Association of Czech Building Savings Banks elected in December 2021. I took over this responsibility from Pavel Jirák and I would like to thank him very much for his work.

The Association has been actively developing the housing financing conditions for 21 years. As its head, I see it as a great commitment for my work as well.

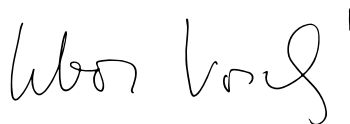
For building savings banks, the year 2021 was clearly marked by records across all institutions, both in terms of total volume and the number of loans provided. Clients invested almost 110 billion crowns in the purchase and improvement of their housing; this exceeded all market expectations. This result was strongly influenced not only by the second year of the global pandemic, which locked us significantly in our homes, but also, among other things, by fears of the effects of rising inflation.

With more than half a million newly concluded savers' contracts, building savings also confirmed their great popularity among the inhabitants of the Czech Republic and, therefore, helped to satisfy the increased demand for housing investments. Money from building savings with state support is an ideal financial instrument if you are reconstructing, building or just want to save

for future construction. Last but not least, the building savings are increasingly used by parents and grandparents as future savings for their children, grandchildren and great-grandchildren.

I firmly believe that building savings banks will continue to play their irreplaceable role in housing funds and will further support the financing of energy-friendlier and more efficient projects. It is not just a fashion trend, of course. We will all feel the effects of the global rise in energy prices in our wallets, and thus everyone will try to reduce energy costs as much as possible depending on their financial or housing situation. There is a wide range of technologies to do so. Various types of insulation or more efficient heating are investments in the order of hundred thousand crowns. And they are exactly the savings banks that can give best loans for those projects: usually without a mortgage to a real estate, at acceptable prices and under acceptable conditions.

Make your living better.



Libor Vošický

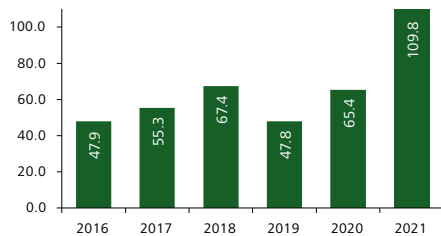
Chairperson of the Association
of Czech Building Savings Banks



A loan record broken by CZK 36 billion

The interest of Czech population in real estate investments and housing loans in 2021 exceeded all expectations, not only in building savings banks, but also in banks. Bringing together a number of factors increasing the demand for houses and flats, accompanied by a general rise in prices as well as the assumption of rising loan prices, the specific situation related to the pandemic literally caused a fever in the housing loan market.

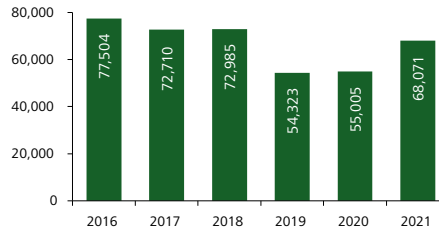
Volume of loans provided (in billions CZK)



In 2021, building savings banks provided for housing the total amount of CZK 109.8 billion, which is a year-on-year increase by 68%. It is also an absolute record in the history of Czech building savings banks. Compared to the so far best result in 2008 when housing prices were, however, completely different, the volume of loans increased by 49%.

68,071 loans were provided last year; this is a year-on-year increase by 23%. The average value of a newly provided loan with building savings banks reached exactly CZK 1,612,634, increasing by CZK 424 thousand in a single year.

Number of new loans



Therefore, the significant increase in the average loan amount confirms rising prices and the need for ever higher amounts. If you need housing or want to have better housing, you have to pay extra in the market. Naturally, this applies not only to clients who use loans, but also to the people who finance their housing needs from their savings.

At the same time, the offer of houses and flats is limited and is even further decreasing with the shopping spree on the real estate market. Construction, especially in attractive locations, encounters various limits and administrative barriers. As a result, the Czech Republic has become the country with the fastest growing real estate prices in the entire European Union.

The loan expansion and, in part, the rise in real estate prices will be slowed down by significant rise in loan prices. This is and will further be caused by increase in standard interest rates by the Central Bank in response to rising inflation. Building savings banks will almost certainly not reach last year's record this year, but the decline should not be as significant for them as for mortgage banks.

In fact, building savings banks provide funding for a very wide range of housing needs. Not only do they provide loans secured by real estates for purchase of houses or flats, but they also finance smaller, unsecured loans for the reconstruction and modernization of the existing housing.

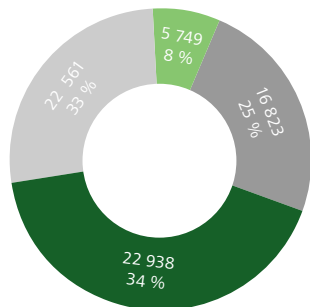
Reconstruction has long been one of the most frequent uses of loans by building savings banks' clients. Demand for them is, among other things, determined by the state of the housing stock, namely by the urgent need for its repairs, and has no reason to fall as much as purchase loans.

Even in 2021, when the already mentioned factors were supposed to lead rather to loan transactions with the purpose of financing the purchase of housing or refinancing less advantageous older loans, building savings banks used to lend most often for the reconstruction and modernization of housing. In particular, these were almost 23 thousand loans, i.e. 23% of the total number of 68 thousand loan transactions.

The demand for reconstruction loans from building savings banks is mainly due to the fact that a client can obtain several hundred thousand crowns, usually without collateral on a real estate. In addition, there is no adequate competition on the market to such

Structure of new loans provided by building savings banks (by number)

- New flats and family houses
- Purchase of a flat or a family house
- Reconstruction and modernization
- Other



unsecured loan. Thanks to its design, building savings can deal with unsecured loans best on the market: at a low interest rate and with a sufficiently long maturity.

Furthermore, savings banks also finance the purchase of flats or houses for several million crowns. Building savings has thus become a universal financial tool that helps save and, at the same time, can cover all the needs on the market associated with housing; from window replacement and insulation through new kitchens or bathrooms to the purchase of new flat or house.

Deposits are a condition for granting loans

Unlike commercial banks, building savings banks primarily obtain their funds for loans from their clients' deposits, not by borrowing on the interbank market. It has its advantages and disadvantages.

The interest rates on savings and loans do not change along with the financial market trends as fast as in banks. Regarding savings, the interest rates do not rise as fast as savers would like to in times of their growth, but in case of loans clients are satisfied if they go up in price more slowly. In addition, the client is already aware of the interest rate of a possible building savings loan at the time

of concluding the savings contract and has it fixed at least until the right to the loan arises. This is also the biggest advantage of building savings in a period of rising rates.

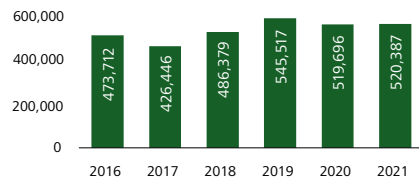
In order for building savings banks to be able to guarantee loan rates in the long term, they need deposits that do not change over time or whose development is predictable. The stability of deposits comes from a stable number of contracts in the system. Based on this, building savings banks can then calculate and offer loans under favourable terms, even in the case of loans without collateral.

The volume of deposits of individual clients is significantly affected by terms and conditions of state support whose parameters have been stable since 2010. The annual support is calculated as 10% of annual deposits, but the maximum is CZK 2,000. The optimal annual deposit for savings is thus CZK 20,500. Due to other factors, such as the optimal savings period, fees, interest rates and other marketing tools, the average deposit per contract has hardly changed in the past six years, rising slightly from CZK 109,674 to CZK 112,149.

In recent years, the number of newly concluded contracts has stabilized at around half a million per year. It turned out that this situation under the given parameters leads to the desired stability in the required volume of deposits. Last year, clients concluded 519,696 contracts, of which in 57,811 cases they increased the target amount for an existing contract.

After years of dealing with changes in terms and conditions, the sector seems to have reached an imaginary equilibrium. The number of contracts in the savings phase increased by 23,000 (0.7%) year-on-year to 3,265,839 and has hardly changed in the past five years.

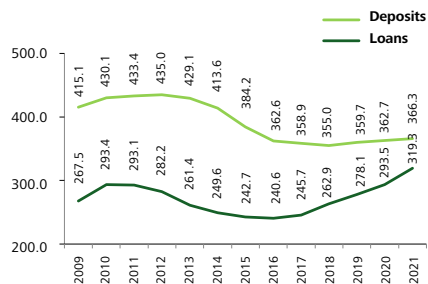
Number of newly concluded contracts, including increase



The volume of deposits has also grown slightly with the number of saving clients. Building savings banks have been currently entrusted with CZK 366.3 billion (more by 3.6 billion year-on-year), which represents 12% of the savings of Czech households in the banking sector. The development of the volume of deposits and loans in building savings banks is shown in the following chart.

The total share of loans in deposits increased by more than three percentage points year-on-year to 87.2% and reached the highest level in the history of building savings in our country. Within building savings, the vast majority of deposits are used to finance loans, i.e. better housing, which shows the meaningfulness and high degree of efficiency of the entire system.

Volume of deposits and loans (in billions CZK)



Building savings and state support

The benefits of building savings are co-determined by state support which, at the same time, is a cost to the state budget. In 2021, the total amount of state expenditures to support the building savings reached CZK 4.24 billion. This slight growth corresponds to the overall increase in the number of clients. The development over the last six years is shown in the table.

Although the state has already reduced the upper limit of annual support for individuals twice, there is still a possibility that the building savings need

to be reduced even further. However, note that every such reduction in history has had logical consequences: sooner or later, the number of savers and the volume of deposits have decreased together with the available resources for loans, as a consequence.

State support provided

| Year | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------------------------|------|------|------|------|------|------|
| State support (in billions CZK) | 4.28 | 3.95 | 3.92 | 3.98 | 4.12 | 4.24 |

At the time when the volume of deposits and loans has almost equalized, further reductions will mean necessary restrictions on provision of loans. At the same time, this would happen at the time when the vast majority of society calls for the need for further housing construction and for help to the middle class to make basic savings on their own funds needed to obtain a housing loan.

In any case, any reduction in attractiveness limiting the savers' party, i.e. their deposits, will result in some reduction in the volume of loans provided or the number of clients served. This must be honestly acknowledged and the impacts must be carefully described before making any changes.

Furthermore, the state support of building savings must not only be seen as an expenditure item of the state budget. Money from loans from building savings banks flows directly or indirectly into the construction sector. Due to the high degree of multiplier effects,

this sector has a very positive impact on additional GDP growth and subsequent state budget revenues.

According to the study Development of Construction until 2012 (2010, Deloitte Czech Republic, SPS, URS Prague), the amount of 1 million crowns invested in construction generates the need for 3.2 - 3.5 workers and every 100 million crowns invested in construction generates tax and other benefits to public budgets in the amount of approximately CZK 55.5 million.

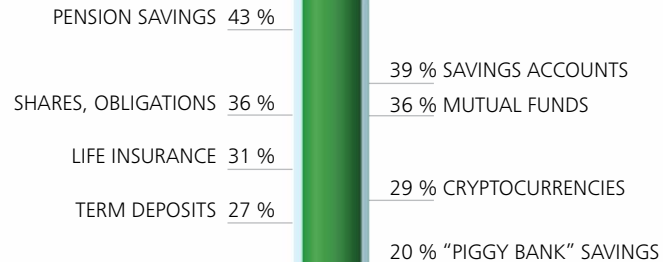
Although the tax burden has slightly changed in recent years and the rate of multiplication may also have changed, it is certain that the state receives tens of billion crowns a year from the loan transactions made by building savings banks. Building savings are thus significantly profitable for the state budget and their reduction is not a tool that could help reduce current high deficits, quite the contrary.

The Savings Popularity Barometer is dominated by precious metals

Every quarter of a year, we ask inhabitants about their preferences in valuing their savings. The Savings Popularity Barometer 2021 shows that precious metals took the lead over building savings, probably due to the uncertain development of financial markets and rising inflation. Having ceded its primacy after a six-year reign, building savings still remain at the top of the imaginary peloton leader board with 51%.

Savings Popularity Barometer

BUILDING SAVINGS 51 %



4th quarter 2020

No matter how much you are saving now, please indicate which of these savings options you now find particularly interesting?

(IBRS, November 2021, N=1000, statistical discrepancy: max. 2.6 %)

Summary of 2021



Building savings banks provided 68,071 loans in the total amount of CZK 109.8 billion. The average amount of loans thus slightly exceeded CZK 1.6 million.

People concluded 520,387 new building savings contracts.

The total number of contracts in the system as well as the saved amounts slightly increased.

Building savings banks administered CZK 366 billion for their clients. This is 12% of Czech household bank deposits in the banking sector.

At the end of the year, building savings banks registered 3,265,839 contracts in the savings phase.

The average amount saved per contract is almost CZK 112 thousand and it has hardly changed in the last five years.

The efficiency of the entire building savings system has increased year-on-year. At the end of the year, the clients were lent 87.2% of total deposits, which is the most in history.



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